

**MUSLIM CUSTOMER SATISFACTION AND PREFERENCE  
OF ISLAMIC BANKS IN MALAYSIA: A STUDY IN  
CONSUMER FINANCING**

BY

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Project Paper Submitted in Partial Fulfillment of the Requirement for the Degree of Master  
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## ABSTRACT

The Islamic banking system is expected to face strong competition not only from the Islamic banks but also from well-established conventional banks offering Islamic products and services. In this study, an attempt is made to assess the degree of Muslims customer satisfaction and preference towards Islamic bank consumer financing in Malaysia. A comprehensive profile analysis and a series of chi-square tests were conducted to reveal key characteristics and pattern. The analysis of their responses revealed a certain degree of satisfaction of many of the consumer financing facilities. The respondents expressed their dissatisfaction with some of the Islamic bank's services as well. Although the respondents indicated that they are aware of a number of specific consumer financing products, but they do not deal with them.

## ABSTRAK

Sistem perbankan Islam bakal menghadapi persaingan sengit bukan sahaja dari bank-bank Islam tetapi juga dari bank-bank konvensional yang menyediakan produk dan perkhidmatan bercirikan perbankan Islam. Kajian ini cuba mengenal pasti tahap kepuasan dan kecenderungan golongan Muslim terhadap pembiayaan pengguna di Malaysia. Analisa komprehensif melibatkan profil pengguna dan ujian siri Chi kuasa dua telah dijalankan untuk mengetahui kriteria dan corak pemilihan. Maklum balas dari kajian ini mendedahkan tahap kepuasan golongan Muslim merangkumi sebahagian besar kemudahan pembiayaan dan terdapat ketidakpuasan terhadap setengah kemudahan yang di sediakan. Kajian juga mendapati walaupun responden mengetahui sejumlah besar produk pembiayaan pengguna, mereka tidak semestinya menggunakan produk tersebut.

## DEDICATION

*To my best friend and lovely wife,*

*Zuraidah,*

*and our gifts from God and sources of our happiness,*

*Muhamad Khalis, Nurul Nasuha and Muhamad Khairin*



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## APPROVAL

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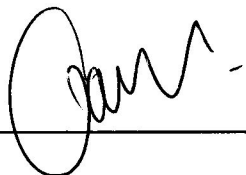
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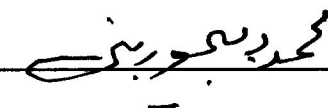
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## ABBREVIATIONS

ANOVA	Analysis Of Variable
ASB	Amanah Saham Bumiputera
BBMB	Bank Bumiputra Malaysia Berhad
BET	Business Enterprise
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
BNM	Bank Negara Malaysia
BOCB	Bank of Commerce Berhad
CSM	Consumers
DBE	Domestic Business Enterprise
DNB	Domestic Non Banking institutions
FGE	Foreign Entities
GSB	Government and Statutory Body
GVN	Government
IVR	Interactive Voice Recording
ODE	Other Domestic Entities
OTH	Others
RM	Ringgit Malaysia
SMI	Small and Medium Industries
SMS	Short Message Services
SSBC	Shariah Supervisory Board Committee
WAP	Wireless Application Protocol
3G	Third Generation Mobile Network

# 1. INTRODUCTION

## 1.1 Overview

Islamic banking in Malaysia has gained momentum with government intention to promote Malaysia becoming an Islamic banking hub and the recent government decision (via Bank Negara Malaysia, BNM) awarded Islamic banking to three (3) foreign financial institutions, which are also among the top players in global Islamic banking.

Currently, 10% of Malaysian banking assets are in Islamic accounts amounting to RM90 billion, registering an average growth of about 42% over the last 10 years. The Government aims to double the size of Islamic banking assets to 20% (it was at 9.9% as at end-June 2004) of the total banking assets in the country by 2010 (The Future of Islamic Banking, Malaysian Business, 15 Jan 2005).

Since the inception of Bank Islam Malaysia Berhad (BIMB) on 1<sup>st</sup> July 1983, Islamic banking has been increasingly penetrating the domestic financial market particularly from Muslims community. However, the Islamic banks face greater challenge not only to compete with other banks but also retaining and gaining customers.

When competition intensifies and when Islamic banks start offering more or less similar products and services, it is the customer's satisfaction that can influence the performance of the Islamic bank and determines its competitiveness and success.

Hence, it is of paramount importance to assess the degree of customer satisfaction towards Islamic banks operating in Malaysia. In this context, a number of questions can be raised. For example, in a country where the majority of the populations are Muslims and where both Islamic as well as conventional banks operate, "to what extent customers particularly Muslims are satisfied with their banks?"

The Islamic banks are not the only financial institutions involved in Islamic banking in Malaysia. Other financial institutions are also offering Islamic banking services through the "Islamic Banking Scheme" as depicted in Table 1.1.1

**Table: 1.1.1 Islamic Banking Scheme as of December 2004**

Group	Category	List of Financial Institutions
First generation Islamic Banks	Islamic Banks	<ol style="list-style-type: none"> <li>1. Bank Islam Malaysia Berhad</li> <li>2. Bank Muamalat Malaysia Berhad</li> </ol>
Participating banks in the Islamic Banking	Commercial Banks	<ol style="list-style-type: none"> <li>1. AFFIN Bank Berhad</li> <li>2. Alliance Bank Berhad</li> <li>3. AmBank Berhad</li> <li>4. Citibank Berhad</li> <li>5. EON Bank Berhad</li> <li>6. Hong Leong Bank Berhad</li> <li>7. HSBC Bank (M) Berhad</li> <li>8. Malayan Banking Berhad</li> <li>9. OCBC Bank (Malaysia) Berhad</li> <li>10. Public Bank Berhad</li> <li>11. RHB Bank Berhad</li> <li>12. Southern Bank Berhad</li> <li>13. Standard Chartered Bank Malaysia Berhad</li> </ol>
	Finance Companies	<ol style="list-style-type: none"> <li>1. AFFIN-ACF Finance Berhad</li> <li>2. AmFinance Berhad</li> <li>3. Southern Finance Berhad</li> </ol>
	Merchant Banks	<ol style="list-style-type: none"> <li>1. AFFIN Merchant Bank Berhad</li> <li>2. Alliance Merchant Berhad</li> <li>3. AmMerchant Bank Berhad</li> <li>4. Commerce International Merchant Bankers Berhad</li> </ol>
	Discount Houses	<ol style="list-style-type: none"> <li>1. Abrar Discount Berhad</li> <li>2. AFFIN Discount Berhad</li> <li>3. Amanah Short Deposit Berhad</li> <li>4. CIMB Discount House Berhad</li> <li>5. KAF Discount Berhad</li> <li>6. Malaysia Discount Berhad</li> <li>7. Mayban Discount Berhad</li> </ol>

Source: BNM 2004

The consequence of this is that first generation of Islamic banks operating in Malaysia is faced with strong competition not only from Islamic banks but also from non-Islamic rivals participating banks in the Islamic Banking. In this study, an attempt is made is to assess the degree of customer satisfaction towards Bank Muamalat Malaysia Berhad (BMMB) consumer financing. The paper also reports the extent to which Muslims in Malaysia prefer the Islamic bank's products and services.

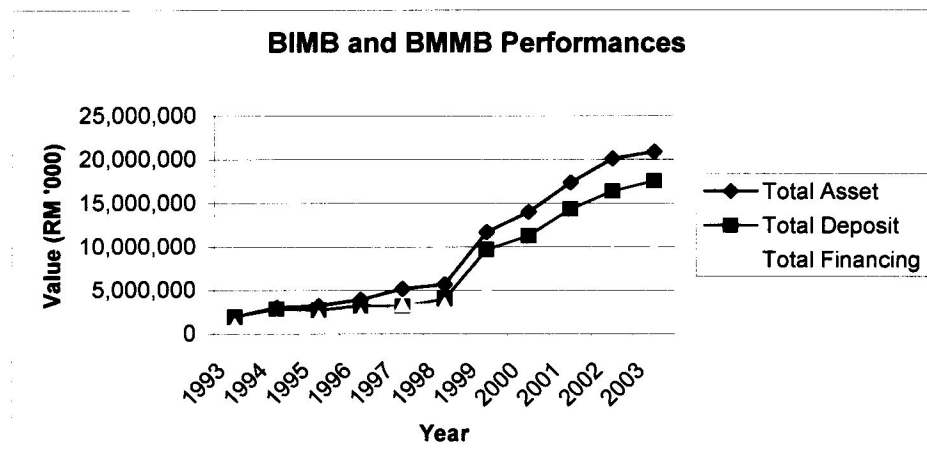
## **1.2 Background of the Study**

This study is designed to identify Muslims customers' degree of satisfaction particularly in the consumer financing with the current products and services as well as their perceived preferences provided by leading Islamic banks operating in Malaysia.

The Bank Muamalat Berhad (BMMB) was chosen for the purpose of the study for a number of reasons. The establishment BMMB was the effect of the spin-off following the merger between Bank Bumiputra Malaysia Berhad (BBMB) and Bank of Commerce (Malaysia) Berhad (BOCB) in October 1999. Under the merger arrangement, the Islamic banking assets and liabilities of BBMB, BOCB and BBMB Kewangan Berhad (BBMBK) were transferred to BMMB, while the conventional operations of BBMB, BOCB and BBMBK were transferred to BOCB accordingly. In addition, BMMB was given 40 branches of BBMB and BBMBK in various locations throughout Malaysia and a staff workforce of 1,000 migrated from BBMB, BOCB and BBMBK. Furthermore there are only two sole Islamic banks in Malaysia, they are BMMB and BIMB.

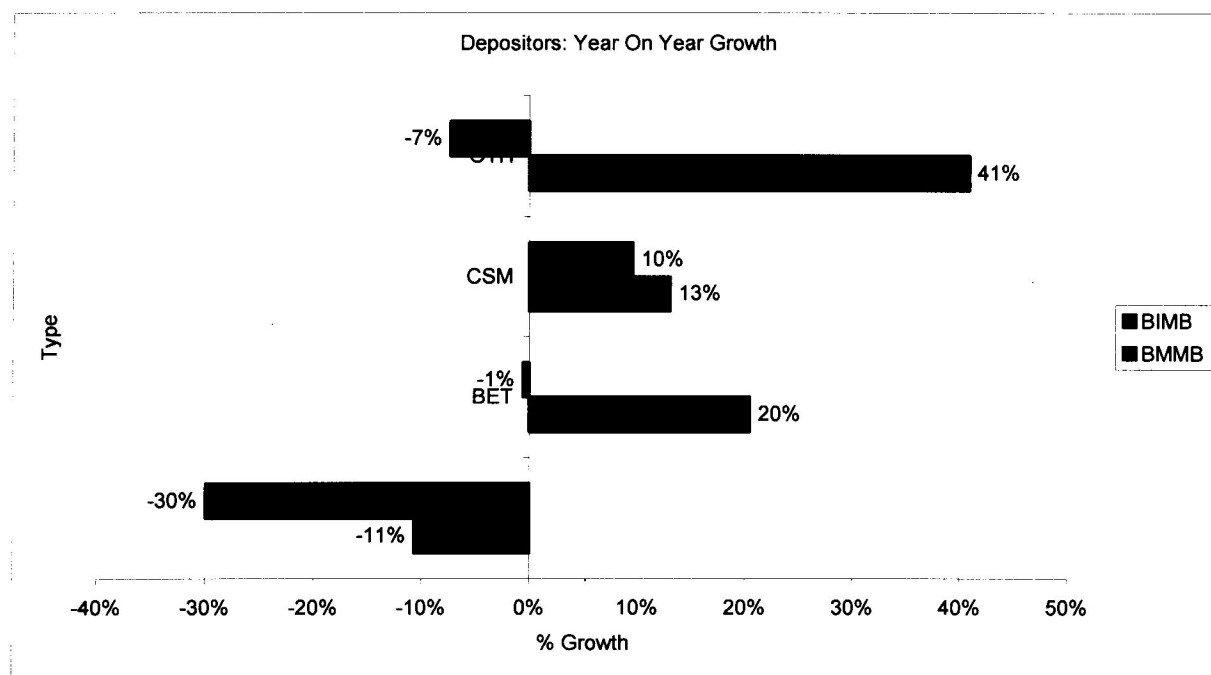
Although between 1993 and 2003, the combined capitalization in the size of asset and deposit of the first generation Islamic banks are almost quadrupled (see Figure 1.2.1), year-on-year analysis revealed significant growth on BMMB for both depositors (see Figure 1.2.2) and financing (see Figure 1.2.3) respectively.

**Figure: 1.2.1 10 Years Performance of BIMB and BMMB**



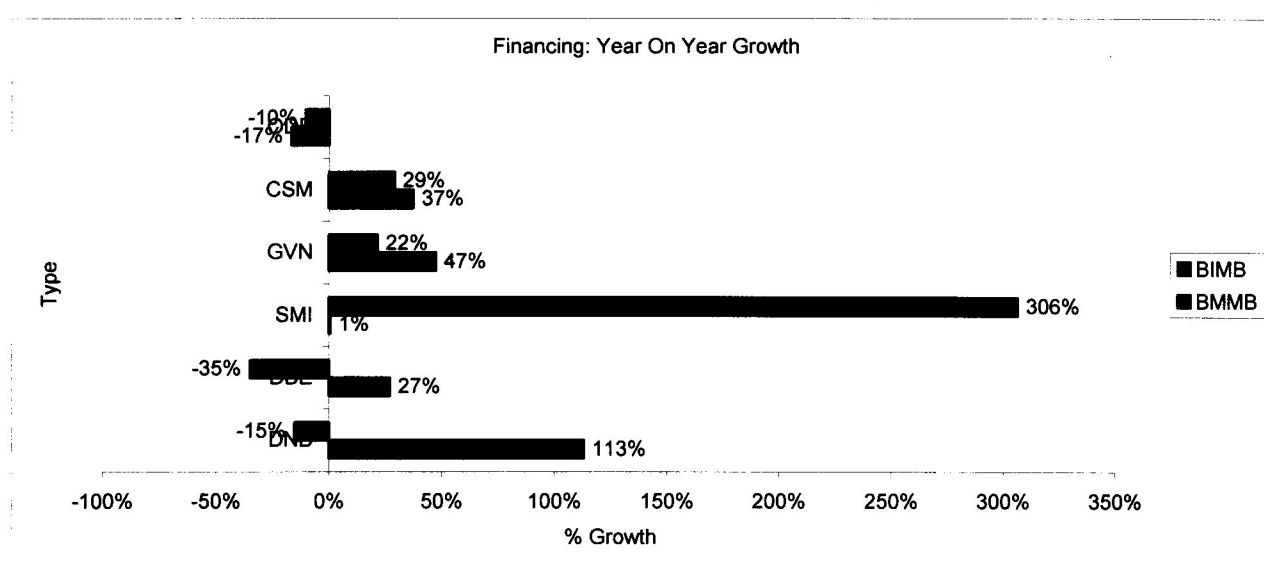
Source: BNM 2003

**Figure: 1.2.2 Depositors Growth**



Source: BMMB, BIMB 2004

**Figure: 1.2.3 Financing Growth**

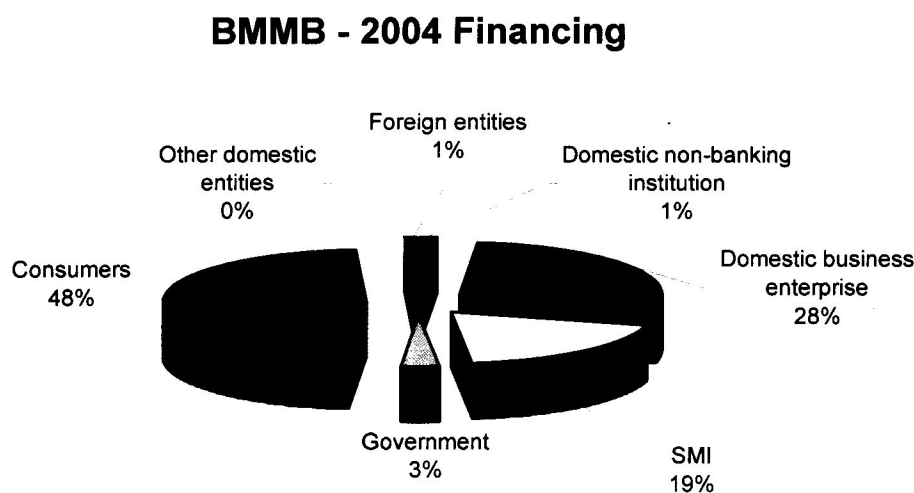


Source: BMMB, BIMB 2004

According to Figure 1.2.2 and Figure 1.2.3 respectively, BMMB reported high growth on depositors as well as in financing sectors. This implies that the bank is making steady and positive growths on its core businesses. The growth of the consumer financing to 37% is therefore appropriate to study a sample of customers of BMMB.

In terms of financing by customer types, it was reported that consumer financing contribute the biggest chunk with 48% (see Figure 1.2.4) and BMMB has set a target of 60% portfolio in consumer financing in 2005, followed by other portfolios such as Domestic Business Enterprise and Small Medium Industries.

**Figure: 1.2.4 BMMB Financing Types**



Source: BMMB 2004

### **1.3 Problem Statement**

Consumer financing is the biggest contributor on the Islamic banks financing facilities, as such this paper is intended to investigate the essence of Muslims customer satisfaction and preferences on this respective business.

### **1.4 Research Objectives**

This study was designed specifically to achieve the following objectives:

- To investigate Malaysian Muslims customer satisfaction in Islamic Banks
- To identify factors favoring Muslims customers in choosing a variety of options in Islamic banks available for Malaysian Muslims.

### **1.5 Significance of the Study**

This study appraises understanding of Malaysian Muslims in the degree of satisfaction and preferences of consumer financing in Islamic Banks where Muslims contribute about 60.4% (Department of Statistics Malaysia for year 2000) of total populations. The success of Islamic banks in formulating effective marketing plans largely depends on maintaining up-to-date and complete profile information on their customers. The availability of such a comprehensive profile provides the bank management with a solid basis for making plausible and effective decisions regarding the marketing of their products and services. It is hoped that the finding presented in this



study will provide some useful and pertinent information for Islamic bank managers in formulating their marketing strategies.

## **1.6 Limitation of the Study**

### **1.6.1 Time Interval in the study**

Paper work on this subject was started on July 2005 and the field survey conducted in the month of October 2005. Another 2 months will be required for data analysis prior to final submission by December 2005, thus the researcher is tight to work within the date line available.

### **1.6.2 Service Management/Marketing**

Some of the data collection are revealing first hand uncensored customers information and may jeopardize current planned and future bank service management and marketing strategy; as such cooperation from the said banks are restricted to a certain extent only.

### **1.6.3 Costing**

The budget of the study is entirely self funded and therefore limited to personal means as against professional agencies who will spend not less than RM 50,000 and above on this similar scale of research.

#### 1.6.4 Resource Constraint

Managing and coordinating different phases in sampling, data collection and analysis for primary and secondary sources are at researcher's own effort, resulting in difficulty to formulate and present the research result in a proper manner

#### 1.6.5 Constitutions Prohibition

Banks are occasionally sensitive to reveal some prohibited information. This limits the area of coverage of this research.

#### 1.6.6 Data Accuracy

All data collected are based upon the perceptions of the participating customers only and therefore may not reflect a true fact of the entire consumer financing population

## 2. LITERATURE REVIEW

### 2.1 The Culture of Islamic Banks

The Qur'an, the Muslims' Holy Book, explicitly deals with economic-related matters and how they apply in Islam (Philip Gerrard and J. Barton Cunningham, 1997). The *Sharia 'h*, this being the Islamic law of human conduct, is derived from the Qur'an. The *Sharia 'h* prohibits what is called "Riba" (that is payment over and above what has been lent – which causes the payment of interest or usury which is not permitted). What the *Sharia 'h* does not prohibit is profit acquired from a trading activity, the reasoning behind this positive stance being that there is a risk of loss involved in any trading activity. With "Riba", in theory, there is no risk of loss. For example, with a conventional fixed-term deposit, all a depositor has to do is wait until the maturity date of the deposit comes along and, if the mandate that he or she gave to the bank was for the repayment of capital and interest, that is what the depositor will get back (in essence, placing monies in a traditional fixed term deposit involves no risk).

Because of "Riba", Islamic banks have to develop financial products, which are not in conflict with the *Sharia 'h*. This has resulted in traditional deposit and lending products, called "conventional" banks, being restyled so as to satisfy the *Sharia 'h*. The task has been achieved by creating a number of special financial products (Ali and Ali, 1994). With each of these products, the parties (i.e. the depositors and the borrowers) can be considered as operating in a partnership to which a risk is attached. Both will receive a

rate of return, which is based on performance – rather than pay interest or receive interest at a pre-determined rate.

The applicable Islamic principles (Sudin Haron, Norafifah Ahmad, Sandra L. Planisek 1994) are called *Mudharabah*, *Musyarakah*, *Murabahah*, *Al-Bai Bithaman Ajil*, *Al-Ijrah*, *Al-Takjiri*, *Qard Hasan*, *Al-Wakalah*, *Al-Kafalah* and *Wadiah*. The distinction and features of these products are briefly described below:

- *Mudharabah*: This is basically an agreement between a lender and an entrepreneur, in which the lender agrees to finance the entrepreneur's project on a profit-sharing basis according to a predetermined ratio agreed on in the negotiation between the two parties. The lender will bear any loss incurred.
- *Musyarakah*: This is a partnership for a specific business activity with the aim of making profit, whereby the lender not only provides the capital but also may participate in the management. As in the case of *Mudharabah*, all parties agree, through negotiation, on the ratio of distribution of profits generated from the business activity, which need not coincide with the ratio of participation in the financing of the activity. However, in the event of a loss, all parties bear the loss in proportion to their shares in the financing.